

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 IO-13 OIC-02

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FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC 8641

INFO AMEMBASSY BANGKOK

AMEMBASSY PARIS

AMCONSUL HONG KONG

CINCPAC

C O N F I D E N T I A L VIENTIANE 1427

E.O. 11652 XGDS-4

TAGS: IMF, EFIN, SREF, SOCI, PORG, EAID, ELAB, LA, PGOV

SUBJECT: REPORTED IMF PRECONDITIONS FOR LPDR LOAN

CINCPAC FOR POLAD

REF: (A) VIENTIANE 1263, (B) VIENTIANE 1328,

1. A KNOWLEDGABLE AND RELIABLE WESTERN SOURCE IN VIENTIANE TOLD EMBOFF THAT THE IMF TEAM, EXPECTED TO VISIT LAOS IN OCTOBER, WILL NOT COME UNLESS THE LAO GOVERNMENT AGREES TO MEET ITS PRE-CONDITIONS FOR AN IMF LOAN, REF A.

2. SOURCE SAID THAT AFTER DISCUSSING LAO ECONOMIC CONDITIONS WITH THE LPDR DELEGATION TO THE IMF/WORLD BANK ANNUAL MEETINGS THE IMF WILL MOST PROBABLY ASK THE LAO GOVERNMENT TO:

A) REDUCE THE NUMBER OF PEOPLE EMPLOYED IN THE PUBLIC SECTOR IN ORDER TO CUT DOWN ON GOVERNMENT KIP EXPENDITURES;

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B) INCREASE PRICES FOR GOODS SOLD IN THE STATE STORE NETWORK IN ORDER TO GENRATE MORE KP INCOME, BRING GOVERNMENT PRICES MORE IN LINE WITH FREE MARKET PRICES, AND GIVE PRODUCERS GREATER INCENTIVES;

C) DEVALUE THE KP FROM THE OFFICIAL 200 KIP PER DOLLAR RATE.

3. COMMENT: REF B REPORTED THAT THE LPDR INTRODUCED A PREMIUM EXCHANGE RATE IN SEPTEMBER WHICH, IN EFFECT, CREATED A MULTIPLE EXCHANGE RATE AND DEVALUED KIP. IT WOULD BE RELATIVELY SIMPLE FOR THE LPDR TO MEET THE REPORTED IMF PRECONDITION OF DEVALUING THE KIP BY DECLARING ONE OF THE TWO PREMIUM RATES OF EXCHANGE TO BE THE OFFICIAL RATE. THE LAO MAY EVEN HAVE ANTICIPATED THE IMF REQUIREMENT AND INTRODUCED THE PREMIUM RATE TO PAVE THE POLITICAL WAY FOR A DEVALUATION THAT HAS IN THE PAST BEEN UNPOPULAR WITH LAO GOVERNMENT WORKERS.

4. COMMENT: CUTTING BACK ON THE NUMBER OF PUBLIC SECTOR EMPLOYEES WOULD NOT BE A POPULAR MOVE FOR THE LPDR ALTHOUGH IT MAKES GOOD ECONOMIC SENSE. WITH THE VIRTUAL ELIMINATION OF THE PRIVATE COMMERCIAL SECTOR THERE ARE FEW JOB OPPORTUNITIES FOR EDUCATED LAO OUTSIDE OF GOVERNMENT. WE WOULD EXPECT RIFED LPDR GOVERNMENT EMPLOYEES TO FLEE TO THAILAND RATHER THAN GO TO THE COUNTRYSIDE AS FARMERS. ALTHOUGH THE LPDR HAS NO IDEA HOW MANY PUBLIC SERVANTS IT EMPLOYS OR ITS TOTAL MONTHLY SALARY EXPENDITURES (REF A) IT HAS INEPTLY CONTROLLED KIP EXPENDITUREKS ON SALARIES BY SIMPLY SKIPPING MONTHLY PAYMENTS AND NEGLECTING TO MAKE THEM UP. BY RIFING GOVERNMENT EMPLOYEES AND PAYING THE REMAINING WORKERS REGULARLY THE LPDR MAY EVEN SPEND MORE KIP THAN IT DOES UNDER THE PRESENT HAPHAZARD SYSTEM.

5. COMMENT: THE PRECONDITION THAT THE LAO RAISE STATE STORE
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PRICES WOULD SEEM TO BE MUCH MORE PALATABLE TO THE LPDR THAN THE ONE REF A, THAT THE IMF WAS REPORTEDLY CONSIDERING, (REQUIRING THE LAO TO LIFT ALL CONTROLS ON THE OPERATION OF THE DOMESTIC FREE MARKET). THE LAO COMUNIST LEADERS ARE DEEPLY COMMITTED TO STRUCTURING A SOCIALIST ECONOMIC SYSTEM BASED ON THE STATE STORE SYSTEM AND A THRIVING FREE MARKET IS ANATHEMA TO THEM. (HOWEVER, THE END RESULT, INCREASED INCENTIVES FOR PRODUCERS, MAY BE THE SAME.)
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Sent Date: 19-Oct-1977 12:00:00 am
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